DOCUMENT RESUME

ED 228 942 HE 016 111

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TITLE Proprietary Vocational Schools: A Significant Sector of American Postsecondary Education.
INSTITUTION National Commission on Student Financial Assistance, Washington, DC.
PUB DATE 1 Aug 82
NOTE 32p.
PUB TYPE Reports - Descriptive (141)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Enrollment Trends; *Federal Aid; Institutional Characteristics; Postsecondary Education; *Proprietary Schools; *Student Financial Aid; *Vocational Education
IDENTIFIERS *National Comm on Student Financial Assistance

ABSTRACT

The role of proprietary vocational schools in American postsecondary education and the way in which student financial aid is used are discussed. Proprietary vocational schools, organized as profit-seeking institutions, provide the bulk of American postsecondary vocational education. The average proprietary school is small and exists in a high-risk environment. Because student tuitions comprise the schools' sole source of revenue, they must be responsive to student and labor markets. Since federal student aid has largely accounted for the growth of the proprietary school industry, federal policies will likely exert a powerful effect on the schools' behavior. Proprietary schools' incentive structure apparently influences the way they package student aid, maximizing the use of grants, probably to aid recruiting and to the extent possible, minimizing loans. Because of proprietary schools' intense class schedule, work packaged as aid plays a relatively small part in student assistance. There is evidence that the schools' profit-seeking structure achieves certain efficiencies, not found in public schools, that carry benefits for students and the public. Information is presented on enrollments, program characteristics and costs, student job placement and earnings. (SW)

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PROPRIETARY VOCATIONAL SCHOOLS: A SIGNIFICANT SECTOR OF AMERICAN POSTSECONDARY EDUCATION

Prepared for:

The National Commission on Student Financial Assistance

By:

Wellford W. Wilms

August 1, 1982

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EXECUTIVE SUMMARY

With the passage of Public Law 96-374, Congress mandated the National Commission on Student Financial Assistance to study the impact of student assistance on students and parents, and to find ways to reduce loan default rates and curb aid program abuses. Proprietary vocational schools, organized as profit-seeking institutions, provide the bulk of American postsecondary vocational education, yet relatively little is known about their operations or the way in which student aid is used. This paper synthesizes and presents the most current information available, drawn from research and discussions with federal officials in the U.S. Department of Education's National Center for Education Statistics, Office of Student Financial Assistance and Office of Program Planning and Evaluation. Discussions were also held with officials at the Veteran's Administration and the Federal Trade Commission as well as officials of the four accrediting associations and selected proprietary schools.

Results indicate that the average proprietary school is small and it exists in a high-risk environment. Because student tuitions comprise proprietary schools' sole source of revenue, they must be more responsive to student and labor markets than other schools to survive. There is also evidence that they are susceptible to adverse effects of competition from publicly-subsidized community colleges. Federal student aid has accounted in large measure for the growth of the proprietary school industry and as long as student aid comprises a significant share of students' tuition, federal policies will likely exert a powerful effect on schools' behavior.

History shows that proprietaries' profit-seeking incentive structure has in the past led some schools to unethical and dishonest practices. However, the industry appears to have undergone substantial reforms from within, making such practices much more the exception than the rule. There is evidence that the schools' profit-seeking structure achieves certain efficiencies, not found in public schools, that carry benefits for students and the public. For example, with the assistance of federal student aid, proprietary schools effectively reach low-income students. Programs are short and intense, so although students pay relatively high tuition charges, they finish their programs faster and are in the labor market sooner, earning money to offset their school costs. Either because of their motivation, the school's structure, or both, proprietary school students are 1½ times more likely to complete their programs than public students. Available research indicates public and proprietary students experience similar job placement and earnings once in the labor market.

Proprietaries' incentive structure apparently influences the way they package student aid, maximizing the use of grants, probably to aid recruiting and to the extent possible, minimizing loans. Because of proprietary schools' intense class schedule, work packaged as aid plays a relatively small part in student assistance. Proprietary students still have the largest unmet need of any type of student, which they apparently make up in a variety of ways not recorded by the school.

Insofar as data permit generalizations, proprietary schools appear to have high rates of compliance with federal aid requirements. Their students' NDSL default rates average slightly higher than public and private four-year college students, but are substantially lower than public two-year students'.

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August 2, 1982

Mr. Douglas N. Ross
Executive Director
National Commission on Student
Financial Assistance
412 First Street, SE
Washington, D.C. 20003

Dear Doug:

Here is the paper "Proprietary Vocational Schools: A Significant Sector of American Postsecondary Education." Because of the late hour and the costs of shipping via Federal Express, I am sending you only the original. I have kept one rather bad copy, and would very much appreciate it if you would return one to me when you have it reproduced.

It ran slightly more than 20 pages. Some of the sections, institutional eligibility for example, could be shortened. However, being unfamiliar with your precise needs, erred on the side of too much rather than too little. I did however, not include an annotated bibliography which would have added more bulk to the paper. Important sources are noted for further reading.

Preparing the paper has been an education for me and I'm looking forward to working with you on the next phase. I shall look forward to hearing from you about your plans for the paper.

I received the contract, and presume payment will follow automatically. Thanks.

Sincerely,

Wellford W. Wilms
Assistant Professor

Enclosure

TABLE OF CONTENTS

Historical Developments Marked by Distrust and Scandal..... 1

Industry Reforms..... 5

Proprietary Schools as Businesses..... 6

The Schools and Enrollments..... 8

Student Characteristics.....11

Program Characteristics.....11

Program Costs.....12

Completions, Job Placement and Earnings.....13

Federal Student Assistance and Proprietary Schools.....15

Recipients.....17

Compliance and Default in Proprietary Schools.....20

Summary and Needs for Added Information.....21

Notes.....23

Bibliography.....24

Although they provide most of the nation's postsecondary vocational training,[1] the 6,000 proprietary vocational schools[2] have only recently been recognized as a legitimate part of the postsecondary education structure. Proprietary schools have grown to represent two-thirds of all postsecondary vocational schools and enroll nearly three-quarters of all postsecondary vocational students,[3] most of whom are from the lower ranges of socioeconomic status and thus depend heavily on federal student aid. Consequently, proprietary schools and their students have become important considerations in federal student aid policy.

Historical Developments Marked by Distrust and Scandal

Though proprietary schools existed in the 17th century, these schools first gained public attention in the latter half of the 19th century as the country struggled to train a workforce to meet its rapidly-increasing manpower needs (Katz, 1973; Juhlin, 1976). Usually known as "corporation" or "trade" schools, they were generally held in low esteem by educators, social reformers and labor leaders. Labor officials feared these schools would be used by their corporate owners to break strikes and foment anti-union sentiments among students. Many educators and social reformers were concerned that private training, carried on outside of public controls, would be geared only to individual employers' needs, dooming students to "blind-alley" jobs (Lapp and Mote, 1915).

For more than a quarter of a century between 1917 and 1945, proprietary schools operated in relative obscurity, eclipsed by

growing federal investments in public high school vocational programs. However, following World War II, a series of scandals in which unscrupulous school operators bilked GI's out of their educational entitlements,thrust proprietary vocational schools into the public eye (Berry and Dunbar, 1970). Fuelled by newspaper accounts that highlighted some schools' deceptive recruiting and sales practices, a number of states enacted license laws designed to curb them. However, states' attempts at regulation, which most agree was minimal, proved largely ineffective in thwarting school operators bent on misrepresentation or fraud (Federal Trade Commission, 1976). Thus, the publicity that accompanied each new disclosure insured a continuation of the industry's tarnished image.

The schools' shady image persisted more tenaciously perhaps than it would have under different circumstances for two added reasons. First, proprietary schools were, until fairly recently, perceived by many prospective students and parents as having only a limited utility. The postwar years of economic expansion had created a large pool of jobs and low rates of unemployment. The conventional wisdom pointed to the rapidly-expanding collegiate system as the route to employment rather than lower-level vocational training, particularly in proprietary schools. Second, the widely-held assumption that profitmaking and education were inherently incompatible likely helped to darken the image of proprietary schools. Until the end of the 1960's most schools operated virtually without regulation. Less than half belonged to one of the four trade association accrediting groups, which most agree had only a minimal effect on schools' operations. However, a few proprietary schools with junior college status in mind sought

regional accreditation. The debate that surrounded a school's bid for regional accreditation in the most notable case, Marjorie Webster, exposed the stubborn assumption that a school's interest in profits would overshadow its concerns for its students and the quality of their education (Marjorie Webster, 1969). More recently the Sullivan Junior College of Business forced the Southern Association of Colleges and Schools under threat of losing its federal recognition, to accept it as a member. One member of a federal committee which investigated the school's complaint, commented that the conflict was ". . . indicative of the education establishment's strong resistance to the accreditation of proprietary schools" (Chronicle of Higher Education, 1979, p. 11).

During the past decade, however, forces that had ostracized proprietaries from traditional education began to shift. The influence of an oversupply of college graduates seeking jobs, combined with a slower-growing economy reduced students' expectations about the economic returns of attending college, and refocused policymakers' attention on shorter-term vocational education. At the same time, the burgeoning federal investment in student aid attracted the attention of the proprietary school industry, which successfully pressed for recognition as a legitimate part of postsecondary education. With the passage of the Higher Education Act of 1972, proprietary schools were admitted to the postsecondary education community and became eligible to receive increased federal student aid.

Finally, the Federal Trade Commission's attempt to regulate the industry, as the consumer movement swept the country, had a profound impact on reforming the proprietary school industry. By the early

1970's public exposures of proprietary schools' deceptive sales and recruiting practices had become commonplace, underscoring the impotence of state regulatory law, pointing to the need for federal intervention. Between 1970 and 1976, the Commission held hearings compiling testimony from over 900 individuals that provided substantial evidence of deception and fraud used by some schools to recruit students. The FTC staff concluded that a lack of reliable student information which would allow prospective students to verify school claims, and the availability of large amounts of federal student aid were partly to blame. The Commission staff reasoned that federal student aid, seemed like "free money" to many students, encouraging them to be less cautious in making enrollment decisions. Further, the staff concluded that the infusion of student aid provided schools with incentives to enroll students independent of their ability to benefit from the course, and distorted the schools' natural incentives to maintain fair cancellation and refund policies. Based on the record, the Commission in 1978 promulgated a Trade Regulation Rule that would require schools to provide students with information about dropout and graduation rates, have a pro-rata refund policy, and provide students with a "cooling-off" period during which they could cancel a school contract without penalty. The Commission staff warned that without such regulation, high government-insured loan default rates would occur (undated Federal Trade Commission memorandum, p. 7).

Industry representatives successfully challenged the rule, which would have taken effect on January 1, 1980, before a U.S. Court of Appeals. In late 1979 the Court ruled in favor of the industry and ordered the rule returned to the Commission for modification. In

January, 1981, the Commission staff recommended a revised rule to the Commission. Recently the Commission chairman issued an agenda indicating the proposed rule will be considered in January 1983. However, many observers feel that the schools' stiff opposition to the rule in the current anti-regulatory climate, may have reduced the Federal Trade Commission's enthusiasm and ability to press for regulation.

Industry Reforms

While the Federal Trade Commission may not have achieved its goal of industry-wide regulation, there is evidence that the public attention focused by the Commission on dishonest school practices, and the threat of regulation, stimulated reform movements from within. Industry representatives, concerned with negative public opinion and the likelihood of regulation moved to improve industry practices. The four accrediting groups (National Home Study Council, National Association of Trade and Technical Schools, Association of Independent Colleges and Schools, and the Cosmetology Accrediting Commission) and some of the larger firms began to adopt some of the key aspects of the regulation sought by the Federal Trade Commission. For example, the industry line of the 60's, "every school has a refund policy - no refunds," gave way to mandated minimum refunds as a condition for accreditation. Control Data Corporation, which in 1979 had 22 technical institutes and had been in litigation with the FTC, adopted an "absolute" pro-rate refund policy, meaning that students paid only for time they actually attended classes. In the late 1960's, accrediting commissions began to adopt written enrollment agreements

and specific catalogue content for schools seeking accreditation. Memberships in most accrediting associations flourished. Except for a 35 percent decline in accredited correspondence schools, between 1969 and 1979 the National Association of Trade and Technical Schools registered a doubling of its member institutions, and business schools accredited by the Association of Independent Colleges and Schools increased more than 1½ times.

Proprietary Schools as Businesses

Because proprietary schools depend entirely on student tuition for revenue, they must be highly sensitive to shifts in student and employment demand. As federal student aid has comprised a larger share of students' tuitions, these schools are also increasingly affected by federal student assistance policies. However, because proprietaries are businesses first and schools second, their ways of cost-cutting, increasing market shares and revenues, and minimizing risks are often misunderstood by educators and policymakers or interpreted as marks of low-quality education. Hyde's economic analysis of Illinois proprietary schools provides an important perspective for policymakers and educators into the schools' incentives and behavior (Hyde, 1976). Underscoring the observation that most schools have a fragile hold on existence, Hyde found evidence that students' demand for training was positively related both to prevailing wages and unemployment rates. Hyde described these schools, less than half of which had capital assets in excess of $30,000, as occupying a sensitive brokering position between the student market and a changing labor market. These small schools (nationally,

60 percent of private vocational schools enroll less than 100 students according to 1978 data from the National Center for Education Statistics) are highly leveraged, meaning that a dollar in assets often generates two or three dollars in revenue. Thus, Hyde points out, a few students can make the difference between a profit and a loss. He describes how in one typical school, a one-percent decline in revenue produced a 60 percent decline in profits, pointing to the central importance of cost control.

Schools' rates of return on physical assets averaged 14 percent in Hyde's study. However, risks in the business are considerable and profits are volatile. During one year the most profitable schools had rates of return of over 100 percent, while 25 percent suffered losses.

Policymakers should also be aware of the competitive relationship between public two-year schools and proprietaries. While the FTC record leaves the impression that little competition exists between the two sectors, Hyde's study documents some detrimental effects of competition from publicly-subsidized community colleges on proprietary schools. Indicating their sensitive and dependent relationship to external events, Hyde showed how during a period of rapid community college expansion, proprietary school failures increased 50 percent and proprietary enrollments collapsed, shifting to the publicly-subsidized community college. In the analysis of a single proprietary school, Hyde recorded a 77 percent decline in enrollments when a community college opened nearby.

The Schools and Enrollments

As of 1978 seventy-five percent of the proprietary vocational schools operated as independent entities, 16 percent were chains and seven percent were branches of other non-educational organizations (NCES, 1979). No reliable data exist on the percent and size of schools owned by larger corporations, or total revenue produced by the industry. According to one account, the top-ten companies operating vocational schools in the United States in 1979 operated more than 60 schools and produced revenues of $225 million (SRI, 1979).

As of 1980, the proprietary industry was the largest school provider of postsecondary vocational training. The 5,993 residential and 82 correspondence schools made up nearly two-thirds (64 percent) of all postsecondary schools offering vocational education. Approximately 67 percent of these schools are either accredited by one of the four accrediting associations, or approved for veterans. Public schools represented 22 percent of postsecondary vocational education providers, and private, non-profit schools, the remaining 14 percent. Student enrollments in 1980 followed a similar pattern. Proprietary residential[5] and correspondence schools together accounted for 72 percent of all postsecondary enrollments--residential schools with 54 percent and correspondence schools with 18 percent of total postsecondary vocational enrollments. Public schools, regional occupational centers, technical schools, community colleges and some four-year colleges with vocational programs enrolled 25 percent of all postsecondary vocational students. Private, non-profit schools, most of which were hospital programs enrolled the remaining three percent (NCES, 1981).

Table 1 shows that within proprietary schools, the largest single group was cosmetology and barber schools. A calculation not shown in the table shows that while 37 percent of all proprietaries were cosmetology and barber schools, they enrolled only 11 percent of all students, with an average school size of about 62 students. At the other extreme, the 82 correspondence schools represented only two percent of total proprietary schools, but 28 percent of all proprietary school enrollments. Half of the correspondence school students were studying through four correspondence schools each with an average size of 33,000 students (NCES, 1979).

Business and secretarial schools comprise the second largest group of schools with an average size of 314 students, followed by flight and trade schools. Arts, allied health schools and 221 schools that could not be easily categorized made up the rest.

The third and fifth columns of Table 1 reveal a significant trend. Though as the third column shows, only trade and business schools registered any positive growth in numbers of new schools between 1974 and 1978. Cosmetology and barber schools declined in number by 9.9 percent, and flight schools shrunk by more than 28 percent. While these figures alone suggest a decline in the industry, the fifth column of Table 1 clarifies the pattern. Except for flight schools which show a loss in both numbers of schools and students, enrollments in business schools increased 37.4 percent between 1974 and 1978, trade schools' enrollments increased 22.8 percent and cosmetology and barber schools 16.5 percent. Apparently, the growth in enrollments in these years (which was not experienced by public schools which registered a .4 percent decline in students) stemmed

Table 1

Distribution of Proprietary Schools and Enrollments, and Changes in Schools and Enrollments by Type of Program (For Selected Years)[1]

Type of Program	Number of[2] Schools-1980 (Universe)	Percent Change[3] 1974-78	Enrollments 1980 (Universe)	Percent Change[3] 1974-78
Business	1,348	.3	423,100	37.4
Cosmetology/ Barber	2,125	-9.9	132,400	16.5
Flight	926	-28.3	62,600	-16.1
Trade	739	3.5	116,100	22.8
Arts	233	-	32,400	-
Allied Health	220	-	42,600	-
Other	221	-	29,700	-
Correspondence[4]	82	-	321,600	-
Totals	5,746		1,160,500	

[1]Three-hundred twenty nine schools with enrollments of 89,000 students were deleted from Table 1 because of changes in NCES definitions that made tabulations across these years hard to interpret. Empty cells indicate data were not available.

[2]A smaller number, 4,017 or 67 percent of all residential proprietary schools, is accredited or approved to received federal financial aid. The major categories of these schools include: business schools, 731; cosmetology and barber schools, 1,710; flight schools, 712; trade schools, 398; arts schools, 136; allied health, 161; and other schools, 22.

[3]Figures include a small number of private, "non-profit" schools and students, which have only a minimal effect on data presented.

[4]Number of schools as of 1978. Data for 1980 not yet available.

Source: National Center for Education Statistics, "Enrollments and Programs in Noncollegiate Postsecondary Schools 1978," Washington D.C., 1979. Data for 1980, estimates from Evelyn R. Kay, National Center for Education Statistics, July, 1982.

more from the expansion of existing schools than the creation of new ones. This interpretation is reasonable in light of federal requirements developed in the early 1970's, that eligible schools must be accredited and have been giving instruction for at least two years to qualify for the most attractive federal aid programs.

Student Characteristics

Proprietary vocational students appear to be remarkably similar to their counterparts in two-year public schools. They generally come from the lower ends of the range of socio-economic status and academic ability (Wilms, 1975). Students' sex varies widely with their occupational program, which largely reflects the sexual composition of the larger occupations.

Program Characteristics

Residential proprietary school programs are on the average about half as long as comparable programs in the public sector (Wilms, 1975; NCES, 1979). Motivated to use their resources efficiently, proprietary school programs demand more class hours each day, making them more intense than public programs. Consequently, proprietary school students work fewer hours outside of class than their public counterparts. Lacking much general education found in public programs, proprietaries pack concentrated skill training into relatively few hours. Wilms reported evidence that suggested proprietary schools were keenly sensitive to the costs of instruction and minimized them by paying their teachers on the average, 65 percent of their counterparts in the public sector. They also deployed their teaching

staffs with costs clearly in mind, by using their low-cost teachers more intensively than their higher-cost teachers. In all cases, proprietary school instructors carried a substantially heavier teaching load than vocational instructors in public schools. Further, Wilms found that proprietary schools hire, retain and promote their teachers on their demonstrated ability to teach. Instructors in proprietary schools do not get tenure, and school management evaluates them frequently (Wilms, 1975).

Program Costs

Preliminary 1980 data from the National Center for Education Statistics indicate a wide variation in proprietary school costs (NCES, 1981). Charges, which include tuition, fees, books and equipment, run from $170 for a 54-hour course in real estate, to more than $3,500 for a 2,700 hour course in electronics. To some extent, course costs vary with course hours. Correspondence courses tend to be less expensive, but program length and number of lessons have less bearing on costs than special equipment. For example, a correspondence course in florestry with 23 lessons takes on average nine months to complete and is priced at $228. At the other extreme, a civil technology course, that requires substantial equipment with 37 lessons, takes an average of eight months to complete and costs $2,986 (NCES, 1979).

Beneath this surface, as the National Center for Education Statistics notes, proprietary costs by themselves may be misleading, particularly when compared with costs in public schools, which in 1978 averaged 20 percent of private[4] school costs. As mentioned earlier, proprietary school programs are more intense than public programs,

with students spending more time in class each day. However, they are considerably shorter than public programs, often lasting only half as long. Consequently, though proprietary students may pay a higher tuition charge than public students, they usually complete their shorter programs more quickly and are available for employment sooner, thus reducing their foregone income. Wilms (1975) found that job placement and wage rates for public and proprietary graduates were similar, and calculated average training costs to the student, including tuition charges and foregone income. He found that in cases where proprietary schools kept their courses to a minimum length, average educational costs were less for those students than students in public schools. Researchers at the Stanford Research Institute (1979) modified Wilms' calculations, adding postgraduate income earned by proprietary students, while public students were still in school, and calculated net comparative education costs. For those studying computer programming, proprietary students' net costs were 51 percent of public students'; auto mechanics atudents', 30 percent; electronic technician students', 60 percent and secretarial students' 27 percent. Medical and dental assisting students had fully recovered their costs before public students had completed corresponding programs.

Completions, Job Placement and Earnings

Allegations of high dropout rates for both correspondence and residential proprietary schools have been reported in the popular press and before congressional committees for years. The Federal Trade Commission record cites dropout rates showing 60 percent of

proprietary students had withdrawn prior to completing one-quarter of the course. Given the nature of correspondence programs that require rigorous self-discipline and the vulnerability of low-income students to schools' hard-sell techniques, high dropout rates seem plausible. But it appears that residential proprietary students persist as well, if not better than students in public vocational schools. For example, the National Center for Education Statistics reports that in 1978, forty-six percent of public vocational students successfully completed their courses, compared with 63 percent of private[4] school vocational students (NCES, 1979). These findings conform to Wilms' findings from a longitudinal study of a sample of public and proprietary school students, that proprietary students were about 1.5 times more likely to complete their programs than public students (Wilms, 1982). While it is impossible to accurately determine reasons that proprietary school students complete their programs more frequently, there are a number of plausible explanations. First, proprietary school programs are shorter and more directed at specific employment than the longer and more general public programs. Second, proprietary school students paid substantial tuitions for their training, which may have served as an added source of motivation to complete them.

Completion rates for correspondence students are slightly more than half of those for residential students (33.9%)(NCES, 1979). However, as mentioned earlier, taking the self-discipline necessary to complete a correspondence course into account, a 33.9 percent completion rate is not surprising, and compares substantially with completion rates in university-based correspondence programs (Wilms, 1976).

In both of Wilms' 1975 and 1982 studies he found that graduates of residential proprietary schools have about the same experiences in the labor market although they were in school, on the average, about half as long as their public school counterparts. Both studies found that proprietary schools can cut their programs to at least half the length of public programs with no loss in placement or earnings for their graduates. Few reliable data are available on correspondence students' job placement and earnings.

Federal Student Assistance and Proprietary Schools

With the exception of Veterans' Administration programs, the chief financial assistance programs used by proprietary school students are those authorized by Title IV of the Higher Education Act of 1965. They are the Pell Grant (formerly known as the Basic Educational Opportunity Grant, or BEOG), the Supplemental Educational Opportunity Grant (SEOG), National Direct Student Loan (NDSL) and the Guaranteed Student Loan (GSL). The College Work-Study program and the State Student Incentive Grant are also available to proprietary students, but because less than two percent of the recipients attend proprietary schools, the two programs have been deleted from further discussion. The current GI Bill consists of three programs: Chapter 31, Vocational Rehabilitation; Chapter 34, Veterans' Educational Assistance; and Chapter 35, Survivors and Dependents' Educational Assistance. Because Chapter 34 accounts for 88 percent of the Act's total enrollments and 86 percent of its costs, this discussion omits Chapters 31 and 35.

With the exception of the GSL program, the programs authorized

by the Higher Education Act carry identical institutional requirements. With a few minor exceptions, institutional eligibility requirements for proprietary schools are the same as those for non-proprietary postsecondary vocational institutions. A school is eligible to participate when it admits students with a high school diploma or equivalent, or students beyond compulsory school age (without a diploma) who can benefit from training. A school must be legally authorized by the host state to provide a postsecondary program which must lead to a degree or certificate, and prepare students for gainful employment in a recognized occupation in not less than six months, or 600 clock hours. Finally, the school must be accredited by a national accrediting association recognized by the U.S. Department of Education and have given instruction for at least two years. The eligibility guidelines for Guaranteed Student Loans are more liberal, allowing schools to enroll elementary school leavers if they can benefit from the training. Programs can last a minimum of 300 clock hours and schools, if not accredited, can be approved by a state agency. Some proprietary school representatives noted that minimum course length requirements encourage schools to lengthen, rather than shorten, their programs, thereby inflating educational costs.

For a proprietary school to be eligible for the GI Bill, it need only be approved by a state agency as to the quality of its staff, adequacy of its facilities and record-keeping, and have an acceptable refund policy to qualify. The 93rd Congress amended the approval requirements so that all vocational schools receiving aid must demonstrate that at least 50 percent of the students find jobs for which they were trained (PL 93-508).

Overall, both U.S. Department of Education and Veterans Affairs eligibility requirements appear to treat proprietary schools remarkably similarly to other schools.

Recipients

A recent study of U.S. Department of Education student aid programs described how institutions "package" their aid (Applied Management Services, 1980(c)). While proprietary and two-year public schools packaged aid in similar ways, proprietary schools placed a far heavier emphasis on grants, which were targeted toward low-income students, and a lighter emphasis on returnable aid (loans) and work. Further, the study noted that proprietary students have substantially higher costs than two-year public students, and after all aid is taken into account, they have the highest remaining unmet need. Table 2 shows the rates of participation of students from all postsecondary schools in each aid program except the Guaranteed Student Loan program and the GI Bill for which no data were available.

Table 2 indicates proprietary school students' proportionately heavy use of non-returnable aid (grants) over returnable aid (loans) and work. A number of reasons seem plausible in explaining this pattern. First, proprietary schools' incentives lead them to enroll as many qualified students as possible. To most students a grant is a far more attractive inducement to pay a relatively high tuition than a loan. Second, because of proprietary schools' practice of scheduling classes more intensely than public schools in order to shorten program length, students are less available for outside work. Also, because few proprietary schools participate in the

Table 2

Percent of all Postsecondary Undergraduate Students Receiving Selected Forms of Financial Assistance by Institution: Academic Year 1978-1979

	Aid Program				
	BEOG	SEOG	NDSL	CWS	State
Proprietary	53	14	20	2	10
Two-Year Private	28	5	7	16	12
Two-Year Public	26	5	23	22	27
Four-Year Private	27	13	4	8	7
Four-Year Public	29	9	13	10	16
ALL SCHOOLS	29	9	12	11	15

Source: Study of Program Management and Procedures in the Campus Based And Basic Grant Programs (G-129) Final Report, Applied Management Sciences, May 1980, Table 5.4.

College Work-Study program, most proprietary students' work is arranged individually and not recorded as part of an aid "package" by the financial aid office. Finally, the study explains that the less intensive use of BEOGs in two-year public schools probably stems partly from the grant's $200 minimum, the lower costs of public schools and the BEOG half-cost limitation (Applied Management Science, 1980 (a)).

Table 3 shows the distribution of selected aid programs for proprietary students over a number of years. Guaranteed student loans are not shown because no figures are available. Similarly,

Table 3

Distribution of Dollars, Recipients and Average Awards by Selected Financial Assistance Programs for Proprietary Vocational Schools: Academic Years 1973-1974 and 1979-1980

	1973-1974				1979-1980			
	Cost (millions)	As % of total program	Recipients	Average Award	Cost (millions)	As % of total program	Recipients	Average Award
BEOG	$3.5	7	14,000	$242	$252	10	239,000	$1,054
SEOG	-	-	-	-	25	8	62,000	559
NDSL	6.9	2	5,200	1,332	51	8	76,000	674
Veterans (Ch. 34)	-	-	810,000	-	-	-	190,000	-

Source: U.S. Department of Education, Office of Student Financial Assistance, "OSFA Program Book," Washington, D.C., July, 1981. Veterans Administration, Office of Reports and Statistics, "Veterans Benefits Under Current Educational Programs Fiscal Year 1981," Washington, D.C., February, 1982.

only number of recipients are available from the Veterans' Administration. In 1973-1974, 14,000 proprietary students, about eight percent of all BEOG recipients, claimed $3.5 million in BEOG funds, or seven percent of the total program. In that same year public, two-year students received 24 percent of the program, and private two-year school students, three percent. In 1973-1974, the average BEOG grant for a proprietary student was $242. By 1979-1980, as Table 3 shows, proprietary students' share of the NDSL increased from two to eight percent of the program, the average award fell from $1,332 to $674. Some of the shift away from NDSL represents an increased reliance on the GSL which is not shown. But it is also plausible the shift partly represents a substitution of grants for loans as the grant programs grew and the Middle Income Student Assistance Act increased student eligibility.

According to an official at the National Home Study Council, which accredits correspondence programs, member schools are moving away from participating in the GI Bill program. Only 12 schools now participate, though they account for substantial numbers of students, and funding authorized for the Veterans' Administration contains no funds for correspondence programs in fiscal year 1982.

Compliance and Default in Proprietary Schools

Data on compliance with federal aid regulations and default rates by type of program for proprietary schools are extremely limited. A recent study however revealed that on the basis of data drawn from a small sample, a high proportion of proprietary schools appear to comply with NDSL financial counselling requirements (Applied Management

Sciences, 1980(b)). Further the study found proprietary schools reported the lowest incidence of grant overawards, and the second highest overpayment recovery rate. The study also found that proprietary schools act sooner on delinquent loans than other types of schools, with most of them quickly turning delinquent accounts over to collection agencies. Finally, the study found while proprietary school students had a relatively high default rate (19.1 percent), it was only two percent higher than four-year public schools. On the other hand, two-year public schools' students defaulted nearly 1½ times more frequently (27.9 percent) than proprietary students.

Summary and Needs for Added Information

Proprietary vocational schools appear to exist in a fragile environment being necessarily sensitive to shifts in markets and federal policies. Their incentives have in the past led to dishonest practices, but in the current environment appear to achieve certain efficiencies. Training in most schools is shorter and more intense than similar training in public schools, thereby reducing students' cost despite their higher initial tuition charges. Proprietary students also appear to complete their programs more frequently than public students. Once in the labor market public and proprietary students' job placement and earnings tend to be similar.

Proprietary students rely most heavily on grants and use loans and work less than other students. They have the largest unmet financial need of all students. Schools appear to comply with federal aid requirements, and though tentative data show their students' default rates are higher than those in four-year colleges, they are substantially

lower than two-year public school students'.

Some important information is currently unavailable, making future student aid policy decisions difficult.

-Very little information is available on the GSL program apparently because it is administered through individual lenders. Indications are that it is an important source of income for many proprietary students. Data need to be collected and analyzed to determine the impact of the GSL program in conjunction with other aid or proprietary students and schools.

-Published Veterans Administration data are woefully inadequate. Table 3 shows the enormous role the GI Bill has played in the past though its relative importance is now declining. Yet few data are broken down by proprietary schools, making the interpretation of existing data difficult.

-NDLS default rates should be carefully analyzed to determine patterns that lie under gross figures. For example, it is important to know the characteristics of schools and their students with high proportions of defaulters. Information should be developed to isolate conditions under which students default and collections are delayed.

-Though the Applied Management Sciences study made an important beginning on assessing federal aid requirements on proprietary schools, more careful analysis needs to be made of how individual aid programs' requirements affect the profit-seeking

incentives of proprietaries. For example, do arbitrary minimum course lengths encourage schools to inflate their programs? Do schools substitute grants for loans and work to attract more students? Could proprietary students bear an increased loan and work load without jeopardizing their persistence in school, or their schools' abilities to recruit students?

-Most relationships between student aid, schools and student behavior have been established necessarily by using highly aggregated data, making sensitive comparisons difficult. A carefully-designed study of a representative sample of proprietary schools and their students would provide the basis for developing models of student assistance impact in these schools.

Notes

[1]"Vocational" training is usually defined as training for an occupation requiring less than a bachelor's degree.

[2]Private schools incorporated as profit-seeking institutions.

[3]Includes both residential and correspondence schools.

[4]National Center for Education Statistics data include a small proportion of private, non-profit schools, which cannot be disaggregated.

[5]"Residential" does not imply students live in the school, but merely distinguishes them from home-study, correspondence schools.

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*Indicates significant source for further reading.